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FOR IMMEDIATE RELEASE
Friday, March 25, 1988

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Address before
National Center for Employee Owenership
Seventh Annual Conference

Thank you.

I always look forward to addressing ESOP groups. You're not like other Washington audiences. There's a special feeling in the room. It's energy. Enthusiasm. You're not theorists. You're doers.

And there's someting more. I'm spending most of my time as a Senator trying to help turn this country around. To restore our international competitiveness.

In some circles, competitiveness has become a buzzword. An abstraction. A disguise for one selfish interest or another.

But for you, it's a way of life. You're doing precisely what needs to be done in boardrooms and on factory floors all across this country.

You're rolling up your sleeves. You're investing yourselves in the operation. You're emphasizing teamwork. You're ignoring the established way of doing things and innovating.

And you're winning: Robert Beyster of Science Application International--eight-thousand employees, and a new billion-dollar computer contract; Chuck Cronin and Walter Bish of Wierton Steel--eighty-six hundred employees, and fifteen consecutive profitable quarters. And many, many more.

Here in Washington, we have to do our part. We need new policies that break from the traditional way of doing things.

This morning I want to talk about the four key areas where this needs to be done: teamwork, education, capital, and technology.

Teamwork

The first key ingredient is teamwork. The problem is obvious. Here in the U.S., we've got low morale, petrified management, and constant tension between workers and owners.

Meanwhile, our best competitors have high morale, innovative management, and cooperation. Japan is one example. An article in the Japan Economic Journal put it bluntly. "The special nature of corporate ownership and control is probably the basic source of Japanese companies' strength and dominance in worldwide markets."

Corey Rosen made a related point when he testified before the Taxation Subcommittee last year. "The issue is not getting more work out of people. It is getting more work out of organizations."

We should not try to apply the Japanese system wholesale here. But we can adopt policies, consistent with our own traditions, that promote economic teamwork.

In this respect, the tax system can play an important part. We can't micro-manage the business world. But we can establish broad incentives that generally encourage a more cooperative approach.

One example is Senator Bumpers' proposal to encourage bonus compensation.

An even better example is employee stock ownership. ESOPs give employees a stake in the operation. And that works wonders. Our "patron saint," Senator Long, put it well in 1981. "Where the employees have a substantial share in the stock," he said, "they look upon this as being their company. They have an interest to protect, and they have a motivation that just doesn't exist otherwise."

Corey Rosen's article in the Harvard Busines Review confirms this. ESOP companies have grown four percent faster with their ESOP than they would have without them. And they've generated jobs and sales faster than comparable non-ESOP companies.

As you know, there have been some criticisms that ESOPs have been used for unproductive activities. To some extent, that may be inevitable in a program of this magnitude. In any event, we should address any abuses in a way that doesn't jeopardize the overall program.

At the same time, we should consider how the ESOP concept can be expanded. As Senator Long frequently said, we should ensure that new incentives for capital investment are closely coordinated with incentives for expanded capital ownership. With people like Corey, Jeff Gates, Mike Keeling, and all of the creative minds in this room, I know that we can not only improve the operation of the existing ESOP program, but expand it.

Education

The second key area is education. You all know the problem. Our kids wind up near the bottom of international comparisons. In one recent comparison, U.S eigth-graders ranked 12th and 16th in algebra and geometry; Japanese students ranked first. As Lester Thurow says, our educational performance "is a national disaster."

It's hard to understand. In the fifties, the Sputnik Crisis generated a renewal of American education. The competitiveness crisis may not be as dramatic. But it has far more serious implications.

Even so, we're not doing much about it. Everybody's waiting for someone else to come up with the solution.

That isn't going to happen. We each have to start at home. We have to troop down to our local school boards and insist on better education. And we have to be willing to pay for it.

The same goes for the business community. After all, these kids are your future employees. Laissez-faire doesn't wash. American companies should be doing much more than they are now to improve our educational system.

The federal government also has a role. We need to identify critical national problems, such as the shortage of scientists and engineers, and come up with a national strategy for addressing them.

The Cost of Capital

The third key issue is the cost of capital.

We've become a nation of economic freeloaders. The federal government is the biggest borrower in the history of the world. And our private savings rate is far lower than that of any other industrialized country.

When America dominated the world economy, our low savings rates were not that big a problem. Our per-capita income was double or triple everybody else's, so a low percentage resulted in a satisfactory amount of saving.

That's changed. As Lester Thurow says, "with little or any income gap, lower savings rates now mean less savings. What was once viable is no longer viable."

The problem is compounded by the mobility of international businesses today. Companies will locate wherever they can get the cheapest capital. In a recent article, Peter Drucker noted this trend, and warned that "this is where, in the last ten years, the United States has become the highest-cost country--and Japan the lowest."

In this case, the solution must start with the federal government.

The key is reducing the federal budget deficit. It may sound like a cliche, but reducing the budget deficit is the most potent and reliable way to reduce the cost of capital.

Last year's budget agrement was a step in the right direction. But only a step. The Congressional Budget Office estimates that we'll still be about $60 billion short of our Gramm-Rudman target for 1990.

We have to do more. This means that we have to cut more spending, including entitlement spending. We also have to raise more revenue. Nobody wants to say so, but everybody knows it.

The question is how we raise the revenue. From a competitiveness perspective, some tax increases would be counterproductive.

So we have to proceed carefully. As economist Larry Summers said at hearings I held last year, "the challenge for policy will be to choose measures that do not interfere with competitiveness by reducing incentives to save and invest."

Several witnesses at those hearings testified that a consumption tax is the best way to go. Traditionally, there has been strong opposition to a U.S. consumption tax, from both conservatives and liberals.

No tax is perfect. Certainly, a consumption tax is not. But it's time to get past the political slogans and compare a consumption tax to the spending cuts or other tax increases that would be necessary to achieve the same result.

We also must reconsider tax incentives for private saving. Our policy has been schizophrenic. We've enacted a series of savings incentives, then limited or repealed them before we knew whether they were really working. All-Savers Certificates. The interest and dividend exclusion. IRAs. The list goes on.

This is no way to encourage stable, long-term private saving. A lot of this is pyschology. And we're sending precisely the wrong signal.

We have to develop a reasonable package of savings incentives, and we have to stick with it.

Technology

The fourth key issue is technology. It's the lifeblood of economic progress. Over the last fifty years, almost two-thirds of our increased productivity has been the result of one technological invention or another.

Now, we're falling behind. Foreigners receive almost half of the patents granted by the U.S. Patent Office, and most of the truly significant ones.

Other countries recognize the importance of technological innovation. They provide huge incentives for innovation.

We don't. Federal funding for research and development has been relatively flat. And the two basic tax incentives for commercial R&D have been political ping-pong balls: expiring, being extended, then expiring again.

Effective commercial research requires a long lead time. If we want our incentives to work well, they must be substantial and they must be permanent.

Otherwise, we might as well not bother.

Conclusion

That, in a nutshell, is what we have to do: emphasize teamwork, dramatically improve American education; reduce the budget deficit; revive sensible savings incentives; and provide stable funding and incentives for technology.

Now, let me respond to any cynics out there in the audience. Here's a U.S. Senator saying that we've got to reduce the budget deficit. At the same time, I'm saying that we've got to spend more on education. And I'm saying that we should not only protect tax incentives for ESOPs, savings, and technology, but expand them.

Am I trying to have it both ways?

Hell yes! That's exactly what I'm saying! These goals are not inconsistent. They're complementary. We've got to reduce the budget deficit. And we've got to devote many more resources to the critical elements of our interenational competitiveness.

As the saying goes, "This ain't beanbag." We're in the economic fight of our lives.

Let me use a sports analogy. It's pretty easy to win the title one year. The hard part is keeping it. It happens rarely. The Yankees. The Green Bay Packers. The Boston Celtics. A few teams that have the plan, the resources, and the intensity.

America has won the title. Now we're trying to keep it. And we're going to find out what kind of team we really have.

Are we an economic flash-in-the-pan? Or a world class champion?

I know what all of you think. I agree. And I'm ready to work with you to keep that championship.